



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Del D. Borgsdorf

**SUBJECT: FRAMEWORK FOR  
EVALUATING PROPOSED  
CONVERSIONS OF EMPLOYMENT  
LANDS**

**DATE:** March 24, 2004

**Council Districts:** Citywide  
**SNI Area:** All

## **RECOMMENDATION**

It is recommended that the City Council take the following actions:

- A. Approve a Framework for Evaluating Proposed Conversions of Employment Lands, including direction for the City's key employment subareas and criteria to evaluate individual proposals; and
- B. Direct staff to utilize the Framework approved by the Council when analyzing proposed conversions of employment lands to other uses.

## **EXECUTIVE SUMMARY**

Based on the Strategic Economics report, discussions with the development community, comment letters, and extensive inter-Departmental/Redevelopment Agency coordination, staff is proposing a Framework for Evaluating Proposed Conversions of Employment Lands to Other Uses (see Attachment 1). The Framework identifies:

- 1. Subareas to promote or facilitate conversion to housing, retail, mixed use, or other Household Serving Industries;
- 2. Subareas to consider for conversion to housing, retail, mixed use, or other Household-Serving Industries in certain circumstances;
- 3. Subareas to preserve for Driving and Business Support Industries; and
- 4. Criteria for the evaluation of proposed conversions to housing, mixed use, retail, and/or other Household-Serving Industries.



The long term planning of the City's supply of employment land is complex, linked closely with San Jose's vision of:

- Having a strong fiscal base to provide high quality services to residents, workers, and visitors;
- Attracting, retaining, and expanding jobs as part of a balanced community where residents have the opportunity to work in the City; and
- Continuing to create housing supply in the right place through infill development, while also encouraging reinvestment in the City's older neighborhoods to preserve their unique character.

Employment lands are an irreplaceable resource and a more conservative approach to managing the supply is prudent given the City's long term economic development needs and its vision of becoming a balanced community. San Jose currently has a competitive advantage over other South Bay communities that are largely built out. The uncertainty of future employment and industry needs in the dynamic, innovative Silicon Valley necessitates that the City maintain a diverse range of employment areas. The Framework describes a judicious approach to this challenging issue.

## **BACKGROUND**

### **Land Use Context**

San Jose's rapid post-World War II expansion resulted in the City becoming the bedroom community for the emerging job centers in northern Santa Clara County. By the early 1970s, the City Council realized that continued outward expansion was not fiscally sustainable and growth was then confined within an Urban Service Area boundary. In addition, with the adoption of General Plan 1975, the City established land use policies to promote economic development and Downtown revitalization in order to provide jobs for residents, reduce commute times, and establish a stable tax revenue base to support City services.

In addition to the older industrial areas, the City Council designated lands in areas such as North San Jose and Edenvale to support long term, future economic growth. At the time, these areas were in agricultural use and, in particular, there was considerable pressure to allow mobile home parks in North San Jose. The City Council firmly decided to preserve North San Jose for future industrial growth even though, at the time, arguments were made that there was far too much land planned for industrial use in light of recent home price escalation and the need for housing in the County.

In the 1980s, the City Council designated the eastern portion of Evergreen and North Coyote Valley as "Campus Industrial" to attract high technology companies to build their campuses in beautiful natural settings similar to the Page Mill Road area of Palo Alto. The Evergreen industrial area was established as part of a land use "swap" with an area in Berryessa north of the

Flea Market. Land that had been planned for industrial uses in Berryessa was “swapped” for land planned for housing in Evergreen, resulting in the Berryessa Planned Residential Community and the Evergreen Campus Industrial area.

Today, within San Jose’s Urban Service Area/Urban Growth Boundary, approximately 60% of the City’s land use area consists of planned residential uses, 5% commercial retail, 14% industrial/employment lands, and 21% open space, schools, etc. The actual acreage of pure employment lands is less due to the presence of government agencies, social services, and other non-industrial activities within the industrial areas. The City’s employment areas are generally located along a central spine from Alviso and North San Jose through Downtown, the Monterey Corridor area, and into Edenvale and North Coyote Valley.

### Jobs-Housing Balance

The City’s long-standing goal has been to add significant numbers of jobs to achieve a “jobs-housing balance”, typically measured by jobs per employed resident. In 1990, San Jose had a jobs-housing balance of 0.78 jobs per employed resident. In other words, San Jose had fewer jobs than resident workers, resulting in many residents commuting out of San Jose for work. By 2000, the jobs-housing balance has improved to 0.86 jobs per employed resident; however, it is still weighted towards more employed residents than jobs. With the job losses in the current down economy and San Jose’s continued housing production (see below), it is likely that San Jose’s ratio in 2003 or 2004 may not be as strong as it was in 2000. In contrast, the City of Palo Alto has a jobs-housing balance of 2.43, the City of Santa Clara is at 2.45, and the City of Mountain View is at 1.88 jobs per employed resident (source: ABAG Projections 2003, June 2003).

### San Jose’s Continued Commitment to Housing Production

Through the City’s proactive planning and affordable housing programs, San Jose maintains its long-standing commitment to provide housing for all economic segments of the community. With the adoption of the San Jose 2020 General Plan in 1994, the City Council created opportunities for 52,000 housing units, primarily in infill locations. From 1995 through 2003, San Jose has issued building permits for almost 34,000 units, of which 5,900 units are affordable to households of moderate, low, very low and extremely low incomes. During that same period, the Council has adopted General Plan amendments creating additional housing capacity. Therefore, the current net holding capacity is currently 40,000 housing units. These housing opportunities are not only vacant land, but also land that has the potential of being “recycled” to other uses. The infill nature of most of these parcels, their relatively small sizes, and other factors now require creative solutions and approaches to development. In earlier times, housing development was easier because of San Jose’s vast acres of vacant, planned residential land.

San Jose is clearly a regional leader in the planning and production of housing, recognizing the link between housing supply and economic health. San Jose easily accepted its fair share (26,114 units) of the Bay Area’s housing need in its certified Housing Element. This share is the largest housing requirement of any Bay Area city. Through the Housing Opportunity Study, San Jose continues to be proactive in identifying possible locations for additional housing or

increased housing densities by bringing forward changes to the General Plan to capture such opportunities. Beyond planning, San Jose is delivering housing, having issued more building permits than any other city in Silicon Valley.

### Conversion History

Over time, the San Jose City Council has considered applications to convert employment lands to residential or other uses. In some instances, large scale conversions were approved to support policy objectives of creating high density residential and mixed use communities in close proximity to existing and planned transit (e.g., Jackson-Taylor, Midtown, Tamien, and Rincon South Specific Plan areas and more recently, the Berryessa Flea Market and San Jose Steel sites in support of future BART stations). Within the last five years, 300 acres of industrially designated land have been converted to other uses, representing a potential loss of 4.5 million square feet of R&D, office, and industrial/warehouse space and 13,700 jobs.

In other instances, the City Council did not change the General Plan land use designation in order to preserve the economic potential of employment lands in North San Jose (as described under “Land Use Context” above), Edenvale, the Hostetter/Lundy area, and Monterey Corridor. Historically, pressure to convert has been particularly acute during economic downturns when the value of industrial land falls dramatically relative residential land values. For example, in the downturn of the early 1990s, Edenvale was under great pressure to convert to residential uses; however, the City Council held firm that Tennant Avenue/Silicon Valley Boulevard was the line in which residential uses would not cross.

The visionary policies to retain employment lands for future long term growth positioned San Jose to add significant numbers of jobs during the 1990s, attracting businesses which are now well established in these areas. Without this foresight, even in the current downturn, the City would not have had locations for the recent expansions of eBay and BEA Systems in North San Jose.

### Current Conversion Pressure

During the current economic downturn, the pressure to convert employment lands to housing, civic, or retail uses has grown tremendously. By May 2003, private applicants had requested the conversion of over 300 acres, represented by 13 applications for amendments to the General Plan Land Use/Transportation Diagram. Since May, additional applications have been filed, doubling the number of acres under consideration to 600. These requests are located throughout the City: not only in the older industrial areas but also in the City’s premier Industrial Redevelopment Areas such as Rincon/North San Jose and Edenvale.

This surge in conversion proposals prompted the City, in June 2003, to hire a consultant team led by Strategic Economics to analyze the potential fiscal impacts of large scale conversions in a broader context, without evaluating the individual amendment applications currently on file. The work of the consultant team would also prove useful to the Economic Development Strategy, which was being prepared concurrently. The consultant team report entitled “Towards the

Future: Jobs, Land Use, and Fiscal Issues in San Jose's Key Employment Areas, 2000-2020" was released in draft form in February 2004 (see attached).

## **ANALYSIS**

### **"Towards the Future: Jobs, Land Use, and Fiscal Issues in San Jose's Key Employment Areas, 2000-2020"**

Strategic Economics led a consultant team composed of Hamilton, Rabinowitz, and Alschuler (public finance firm based in Los Angeles), Whitney and Whitney (a real estate advisory firm), and Urban Explorer [a company with expertise in Geographic Information Systems (GIS)-based, web-enabled modeling]. The consultants' work was directed and reviewed by an inter-department group, which included Planning, Economic Development, the Redevelopment Agency, and Housing. At key milestones in the development of the consultants' work, outreach was conducted with the development community, as described under the "Public Outreach" section of this memorandum. Concurrently, the Administration was preparing the Economic Development Strategy, and portions of the Strategic Economics' analysis were incorporated into the Strategy.

The consultant team analyzed the relationships between the City's economy, its budget, and land use policy/supply by:

- Determining the number and types of jobs within San Jose's key employment subareas;
- Examining the land supply and demand for jobs and housing growth through the year 2020, in light of the anticipated structural changes in San Jose's driving industries, including the potential for higher-density workplaces;
- Studying the fiscal performance (i.e., costs versus revenues) of hypothetical development scenarios within certain employment subareas by using a GIS-based, web-enabled, interactive modeling tool linking land use and fiscal impact; and
- Identifying economic considerations for employment land conversions in the key subareas.

### *Employment Land Subareas*

Using spatial analysis of State Employment Development Department data, the Strategic Economics' report documents the number and types of jobs within San Jose at a level of detail never before available to the City. Through this analysis, the consultants defined subareas of active employment lands (i.e., areas with existing jobs) and categorized them by the types of industries found in each subarea. These categories include:

- Primarily Driving Industries (industries that export services or products from San Jose to the national and/or global market, such as high technology)

- Primarily Business Support Industries (industries that sell services or products to other industries within the local economy, including to Driving Industries, such as legal services)
- Mix of Driving and Business Support Industries
- Primarily Household-Serving Industries (industries that support local resident and worker populations, such as retail)

13,000 acres are contained within the subareas, representing 13% of the City's total land area but containing 54% of the City's total employment and 72% of the City's total employment in the Driving Industries. Pages 11 through 13 of the consultant team report tabulates the subarea employment characteristics, and following page 13, a map depicts the subareas and their respective categories.

The remaining employment is located throughout San Jose, particularly in commercial retail corridors, or industrial pockets outside of these employment subareas. In addition, although planned for Driving Industries, the Evergreen and North Coyote Valley industrial areas are still largely undeveloped and are also not included in the subarea analysis. These two areas account for an additional 1,700 acres.

#### *Land Supply for Jobs and Housing Through 2020*

Using the Association of Bay Area Governments (ABAG) Projections 2003 (published June 2003), the Strategic Economics' team estimated the amount of land that would be needed to meet the job and housing projections for San Jose to the year 2020. ABAG projects that San Jose would add 141,000 jobs after the City regains its 2000 employment level.

Historically, ABAG projections have proven accurate over a 20-year period. Nonetheless, staff is working to obtain job projections from other sources to understand other viewpoints and considerations regarding this key issue. The important point is that the City of San Jose wants to continue adding jobs to ensure a strong fiscal base and to create an opportunity for every resident to work in San Jose. Over the long term, the City's rate of job growth will depend partially on external factors (e.g., national economic growth and changing demographics), but also on the City's aggressive implementation of the Economic Development Strategy, including the land supply and building options it offers new and expanding companies.

Also, based on focus group information that future jobs in the Driving and some Business Support Industries would likely be located in taller buildings rather than low rise campuses, the consultant team estimated that approximately 50 million square feet of new space plus the absorption of the majority of the existing vacant buildings would be needed to accommodate the 141,000 jobs. This estimate also assumes more efficient use of space by increasing employee densities (i.e., less space per employee). Using these assumptions, the consultant team estimated that almost 2,000 acres would be needed for Driving, Business Support, and non-retail Household-Serving Industries, and an additional 770 acres for retail.

The consultant team then evaluated the existing supply of vacant land within the employment subareas and concluded that this supply along with some recycling of some existing space was sufficient to meet the employment growth needs through 2020 assuming more intense use of land and building space. Evergreen and North Coyote Valley were not included in the land supply analysis, however, the consultants acknowledged that these areas could be alternative locations for future Driving Industries through 2020 and beyond. North Coyote was not included because its job potential is tied to the future community of Coyote Valley, which is intended to have an internal jobs/housing balance. Evergreen was viewed primarily as a long term employment opportunity (i.e., after 2020).

In terms of housing, ABAG projects 63,000 housing units are needed in San Jose between 2000 and 2020. Assuming densities that are consistent with the San Jose 2020 General Plan, the consultant team estimates that approximately 2,900 acres of land is needed to accommodate the projected housing demand. All of the Citywide vacant residential land supply (1,800 acres) plus a significant amount of land recycling would be needed to meet this demand.

The consultants concluded that San Jose will experience constant pressure to convert employment lands for housing particularly during slow economic times with high commercial office vacancy rates and high residential land values.

### *Fiscal Analysis*

The consultant team examined the fiscal impacts of several hypothetical land use scenarios in select subareas. These subareas represented three of the four categories: Primarily Driving Industries, Primarily Business Support Industries, and a Mix of Driving and Business Support Industries. The fiscal model included parcel specific data (e.g., property tax revenue) for each of the four test subareas as well as service assumptions tailored to the actual available City services of police, fire, library, and parks. Thresholds for increments of additional services were provided by the respective City departments on a subarea basis. In other words, the fiscal model was designed to calculate the marginal or incremental service costs and revenues of different land use scenarios.

The land use scenarios included housing, mixed housing/retail, and various employment uses (e.g., office) on multiple sites within a subarea. In this way, the scenarios assumed some land uses would remain as they are today, and then hypothetical residential, mixed retail/housing, or office uses were then distributed to properties throughout the remainder of the subareas. Although the consultants created the hypothetical scenarios to be plausible for testing purposes, the description of the scenarios should not be mistaken as recommendations for future land use conversions. Staff recognizes that this portion of the report should be clarified so as not to lead the reader to such conclusions.

The fiscal model used a parcel-specific, GIS database to analyze the potential fiscal impacts of the hypothetical scenarios. In general, the fiscal impacts of new housing development are greater (i.e., costs are greater than revenues) in subareas that are not currently well served by police, fire, library, and/or parks. Even in areas with existing services, the number of new employees must exceed or at least equal the number of new residents to offset the costs of serving new

population. Mixed residential/retail uses tend to perform better fiscally because of the increased sales tax revenues generated by the retail uses. Land use scenarios with primarily office or retail uses performed the best overall due to the relatively low service costs and high revenues.

### *Economic Considerations for Employment Land Conversions*

Based on an analysis of the subareas' current employment, employment density, and vacant land supply, the Strategic Economics team made general recommendations regarding which subareas should:

- Be reserved for future employment uses,
- Accommodate limited conversions to residential and/or retail uses, or
- Become available for more widespread conversion.

The recommendations are presented by the four subarea categories mentioned above (Primarily Driving Industries, Primarily Business Support Industries, Mix of Driving and Business Support Industries, and Household-Serving Industries). Pages 24 and 25 of the report summarize the recommendations.

In most cases, the consultant team recommended retaining the overall character of a subarea in order to continue to support the predominant industry mix within that subarea. In other words, subareas that have already experienced significant introductions of housing and/or retail were candidates for more conversion while subareas that are largely intact are recommended for no additional or only limited conversions. For example, the Story Road subarea (Olinder Redevelopment Area) is recommended for conversion to retail given the existing retail character of this subarea. In another recommendation, the consultants indicate that the prime land in Edenvale 2 subarea should be preserved for industrial uses.

### Responses to Written Comments on the Strategic Economics Report

After the consultants' draft report was completed, it was made available for review and comment. As described under "Public Outreach," the draft report was discussed at a Developer Roundtable meeting in February. In addition, Planning staff received comment letters on the consultants' report from Mr. Speno and Mr. Tosta (see attached).

#### *Letter from Mr. Steven Speno (Gibson Speno, LLC)*

Mr. Steven Speno's letter raises several important points, focusing primarily on the underlying assumptions that affect the consultant teams' conclusions with respect to land supply for both jobs and housing (see attached letter). He also points out a couple of key policy questions regarding opportunities for housing growth relative to job growth that are beyond the scope of the consultant's work yet warrant a response. The following discussion is not intended to respond to every point in the letter but to highlight the major themes.

Mr. Speno expresses concern about the use of ABAG Projections and recommends the consideration of other job projections particularly if the projections are the foundation of the land

supply calculation. In response, staff is reviewing other job projections in recognition that the ABAG forecast, though in the past a credible source of long term projections, is an the optimistic job forecast.

Even if the ABAG Projections are “extremely optimistic,” employment lands are an irretrievable resource and a more conservative approach to managing the supply is prudent given the City’s long term economic development needs and its vision being a balanced community. Regardless of the specific job projection number, staff has learned that the supply of employment lands is limited to a couple of decades. As Mr. Speno states in the letter, “we should remain mindful of the need to preserve both residential and industrial opportunities beyond the time frame of the General Plan.”

Staff also agrees with Mr. Speno regarding the more efficient use of land in the future in terms of higher densities, taller buildings, etc. These efficiencies were accounted for in the consultants’ analysis of land supply. In other words, if San Jose companies choose not to intensify their operations, then the employment land requirement to accommodate future job growth would be greater, and more acres would need to be available for economic development. Similarly, if housing densities are not realized, then there will continue to be pressure to convert land to residential use.

The consultant team did not address the policy question of providing “an adequate inventory of residential land to accommodate the housing demands associated with such employment growth”. This issue was beyond the scope of the consultants’ study, however, it deserves comment. During the 1960s, 1970s, and 1980s, San Jose provided most of the new housing that supported the job growth occurring in cities to the north. Only in the 1990s did San Jose begin to realize significant job growth, while continuing to expand residential opportunities. At the same time, other cities in Silicon Valley experienced huge job increases but did not produce housing to support it. As a result, Silicon Valley (and arguably the greater Bay Area) has a huge housing shortage relative to its job creation. This has resulted in residential growth outside the nine County Bay Area and serious traffic problems.

While the region has an acute housing issue, San Jose is continuing to create housing opportunities, approve housing development, and issue building permits, as discussed in the Background section of this report. At the same time, the City’s longstanding goal has been to try to achieve a jobs-housing balance as measured by the total employed residents relative to total jobs. Staff agrees that housing growth is critical to San Jose’s future economic development success. Currently, housing growth is again outpacing job creation in San Jose. The policy question for the City Council is: when the economy turns around, should San Jose be expected to maintain or even increase the pace of homebuilding? Based on ABAG’s Projections 2003, even in the far term (years 2020, 2025, and 2030), San Jose is projected to remain imbalanced in favor of housing with 0.88 jobs per employed resident.

During the 1990s, staff also learned that businesses chose to expand or locate to San Jose because the workers in these companies lived in San Jose. The businesses conducted zip code analysis of their employee home locations as part of their evaluation of potential locations for

their operations. The fact that employees currently live in San Jose indicate that the City does not need to create new homes at the same pace as new job creation.

*Letter from Mr. Timothy Tosta (Steefel, Levitt & Weiss)*

Mr. Timothy Tosta expressed concerns about the underlying assumptions contained in the Strategic Economics report (see attached letter). The letter also contains an attachment from Joanne Brion, an economist with Brion & Associates, which provides detailed information regarding the major issues raised in Mr. Tosta's letter. The following discussion is not intended to respond to every point in the letter and its attachment, but to highlight the major issues.

Mr. Tosta also questioned the use of ABAG's Projections 2003 as the basis for the job numbers. Staff's response to this issue is the same as above in response to Mr. Speno's letter.

Mr. Tosta identified that the Strategic Economics report underestimates the total supply of vacant industrial land. While Strategic Economics did not directly consider the vacant acres in Evergreen and North Coyote Valley in its subarea conclusions, the consultant team does acknowledge that these acres represent opportunities beyond 2020 for expansions of Driving Industries. Staff is addressing these additional acres in the proposed Framework for Evaluating Proposed Conversions of Employment Lands to Other Uses (discussed below). With respect to phantom office space, the consultants were unable to find a reliable data source to quantify such space and therefore could not consider it.

Mr. Tosta suggested that the Strategic Economics report should have considered all of the industrial land supply in Silicon Valley; however, this suggestion is beyond the scope of the consultant study. While understanding the larger Silicon Valley context is informative, the consultants were specifically directed to examine the issues as they relate to San Jose so that the City Council could make responsible decisions regarding the City's land supply.

Mr. Tosta suggested that the industrial land requirements were overstated; however, the consultant team did include assumptions regarding more efficient use of land and office space in the derivation of the projected land supply. While the Strategic Economics report was originally intended to be an attachment to the Economic Development Strategy, the consultants continued to refine their analysis and thinking about these issues resulting in changes to the data contained in Chapter III.F of the Economic Development Strategy.

Mr. Tosta also raises the issue of the different subarea characteristics and their role in the San Jose economy. Staff agrees that the subareas are unique and contribute differently to the San Jose economy as documented in the Strategic Economics report. In terms of the citywide employment land supply requirements, the consultants did identify different types of space (e.g., warehouse, low rise office, mid-rise office, etc.) in the assignment of future job growth. While not directly attributing particular building types to specific subareas, based on the current characteristics of the types of industries within subareas, one could conclude where different building types would likely be located. For example, subareas with primarily Business Support Industries are likely to continue to have warehouse and low-rise office building whereas subareas with Driving Industries are likely to have the more intense building types. The attributes of the

different subareas are also considered in the proposed Framework for Evaluating Proposed Conversions of Employment Lands to Other Uses (see below).

Finally, Mr. Tosta expresses concern that the consultant report did not adequately address retail space needs. The Strategic Economics report estimated a retail land demand of over 700 acres by the year 2020, and their recommendations suggested which subareas are best suited to accommodate that demand. It is also important to remember that significant commercial areas exist outside of the employment lands subareas and could also accommodate future retail in a more efficient and pedestrian friendly fashion.

### Framework for Evaluating Proposed Conversions of Employment Lands to Other Uses

Based on the Strategic Economics report, the above letters, focus groups, and discussions with the Developer Roundtable, staff is proposing a Framework for Evaluating Proposed Conversions of Employment Lands to Other Uses (see attached). The purpose of the Framework is to create more certainty and predictability in the review of employment land conversion proposals while retaining flexibility to respond to changing conditions, information, and policy considerations.

In general, staff believes that it is in the City's best interest to retain a long term supply of employment lands for Driving, Business Support, and Household-Serving Industries. The land supply consists both of vacant acreage as well as currently developed employment lands that could be recycled to more intensive employment uses. While the Strategic Economics report looked out to the current timeframe of the General Plan (2020), staff recognizes the need to plan for the City's economic development needs beyond 2020.

Therefore, staff recommends a more conservative approach to the employment land supply issue given that it is an irreplaceable resource, San Jose currently has a competitive advantage over other South Bay communities that are largely built out, and the uncertainty of future employment and industry needs in the dynamic, innovative Silicon Valley. For example, some companies will prefer to locate in the creative center of Downtown in a high rise, while others may prefer a low rise campus environment appropriate in Edenvale. By retaining a diverse range of employment areas, San Jose would be well-positioned to attract and retain jobs.

In addition, staff recognizes the City's need to continue to be proactive in creating housing and retail opportunities. For this reason, the Framework identifies possible opportunities for such conversions both within subareas and outside of them without compromising the integrity of the key employment subareas.

### *Framework Elements*

1. Subareas to promote or facilitate conversion to housing, retail, mixed use, or other Household Serving Industries: As described in the attached Framework, certain subareas or portions of subareas should be considered for future conversion because of their existing land use character and their proximity to Downtown, North San Jose, or other premier employment subareas. The mechanism for such conversions would be through future General Plan amendment proposals and the Council's consideration of them. By

approving the Framework, the Council/Agency Board is acknowledging potential opportunities for conversion but is not taking a land use action at this time. The acreage of these potential conversions could be approximately 450 acres.

As noted earlier, the subareas do not capture all of the City's employment lands. There are additional pockets that may be appropriate for conversion given the surrounding land use context. These areas should be evaluated on a case-by-case basis against the proposed criteria if and when they are initiated as General Plan amendments.

In addition, the City is underway with the Evergreen Smart Growth Strategy/Evergreen Visioning Project. Through this community-based process, a citizen task force is beginning to consider potential alternative land uses for the properties in Evergreen Campus Industrial area. If General Plan amendments move forward from this process, an additional 330 acres could potentially be converted to residential and/or civic uses.

2. Subareas to consider for conversion to housing, retail, mixed use, or other Household-Serving Industries in certain circumstances: The Framework acknowledges that as the City Council considers modifications to policies and regulations to facilitate more intensive and efficient use of key employment lands, that these efficiencies may create opportunities for changes in use on other properties to workforce housing, retail or other uses to support the key employment lands. As stated in the adopted Economic Development Strategy, San Jose needs to facilitate the continued evolution of its employment areas as creative and innovative centers that attract and retain young talent in San Jose's emerging companies. Opportunities to establish such centers exist in the North First Street Corridor and in Edenvale 1 subareas. For example, the City is now underway with an update of the North San Jose Area Development Policy to facilitate taller buildings and higher Floor Area Ratios (FARs) to create an innovation center in North San Jose.
3. Subareas to preserve for Driving and Business Support Industries: The Framework recognizes the importance of protecting key subareas for existing and future Driving and Business Support Industries. Such protection is essential to create opportunities for business expansion, as well as creating opportunities for mid-tier job growth. For example, eBay and BEA Systems benefited from protection in North San Jose. As another example, vacancy rates are very low in the Monterey Corridor area signaling the strength of these subareas even in the current down economy.

For approximately 20 years, the North Coyote Valley has been planned for 50,000 "Campus Industrial" or Driving Industry jobs, using current terminology. Through the Specific Plan process during this spring and summer, the Task Force and the community are scheduled to discuss the character of this "next generation workplace", its intensity, and geographic distribution in the Coyote Valley. For example, these jobs may also be more efficiently planned through higher intensities. The retention of these jobs is critical to create a balanced community in the Coyote Valley. Additional Household-Serving Industry jobs are also expected to be part of the Coyote Valley Specific Plan, and market studies are now getting started to evaluate that question. Even if the full build out of

Coyote Valley remains a longer term prospect for San Jose, the retention of Coyote Valley jobs should not detract from the employment preservation of other key places that are proven in the marketplace as desirable locations for Driving Industry jobs (e.g., North First Street and Downtown San Jose).

In addition, should the Council consider conversion of the 330-acre Evergreen Campus Industrial area to other uses in the future, then other southern locations for Driving Industry jobs (i.e., Edenvale and North Coyote) become all the more important for protection to maintain a more efficient transportation system and to retain opportunities for greenfield employment development.

4. Criteria for the evaluation of proposed conversions to housing, mixed use, retail, and/or other Household-Serving Industries: As part of the Framework, staff has identified criteria to evaluate proposed conversions of employment lands to other uses. The criteria are written in the form of questions, and deliberately not scored to a point system. In this way, individual circumstances can be evaluated against the most current data. The Strategic Economics report is one data source that may be useful in answering these questions.

Over the years, City staff has used most of these criteria in the evaluation of conversion proposals. By clearly stating them as part of the Framework, the staff's analytical approach becomes more transparent to property owners and the real estate development community. This allows applicants an ability to assess the potential risk or difficulty in pursuing a particular conversion in one of the employment subareas.

Two new criteria assess: (1) the economic contribution of the subarea within which a conversion proposal is located and (2) the potential fiscal impacts of the conversion. The first criterion directly relates to the other three elements of the Framework. In other words, is the site located in a subarea that is recommended for potential conversion or not? By asking this question, staff can evaluate the impact of the proposed conversion on the integrity of the subarea and the conversion's consistency with the Framework.

The criterion related to the potential fiscal impacts is intended to examine the relative availability of City services to support a conversion, particularly to residential use. It also provides an opportunity to consider the revenues associated with retail or mixed use conversions. This is not a requirement for each conversion proposal to complete a fiscal impact study.

The Home Builders Association (HBA) has expressed concerns particularly about these two criteria (see attached letter). Staff acknowledges that the determination of the economic contribution of a subarea may change with time. Therefore, staff do need to continually evaluate the overall health of the employment subareas, vacancy trends, industry facility needs, and other factors to ensure that the land supply and the City's regulatory environment is supportive of a dynamic, innovative economy within the subareas. Similarly, staff should evaluate the cumulative impact of conversions to assess the long term integrity of subareas if, over time, some of them become severely

compromised with incompatible uses. In light of these important issues, staff continues to recommend that this criterion remain part of the Framework.

With respect to the fiscal criterion, the HBA is concerned that the fiscalization of land use due to California's tax structure inherently puts housing in a negative fiscal light even though housing can contribute to the overall economic health of a community by creating homes for local workers. While staff agrees that housing development remains a key priority for San Jose, City government also has a responsibility to ensure that services are available to support existing and future residents of planned housing. Because land use directly affects the City's service delivery models, staff would recommend the retention of this criterion even on a qualitative basis.

### Application of the Framework

Through this memorandum, the Council is being asked to approve the Framework for Evaluating Proposed Conversions of Employment Lands to Other Uses. The Framework would establish the direction for the treatment of the employment subareas as well as other employment lands. This provides certainty to property owners and developers of the City's vision with respect to its employment lands, consistent with the San Jose 2020 General Plan and the recently adopted Economic Development Strategy.

In recognition of the City Council's need to consider site specific situations and other circumstances within San Jose, the Framework also include criteria for evaluating individual conversion proposals. The City's professional staff would evaluate all conversion proposals against the criteria. The criteria identify the key issues for the analysis of conversion proposals; however, there may be other criteria or factors to consider in the evaluation of individual proposals. The "Towards the Future" report would be one source of background information for answering the questions posed by the criteria. Other background information may include, but is not limited to, reports on the Silicon Valley economy, office vacancy trends, etc.

### CONCLUSION

The long term planning of the City's supply of employment land is complex, linked closely with San Jose's vision of:

- Having a strong fiscal base to provide high quality services to residents, workers, and visitors;
- Attracting, retaining, and expanding jobs as part of a balanced community where residents have the opportunity to work in the City; and
- Continuing to create housing supply in the right place through infill development, while also encouraging reinvestment in the City's older neighborhoods to preserve their unique character.

Employment lands are an irretrievable resource and a more conservative approach to managing the supply is prudent given the City's long term economic development needs and its vision of becoming a balanced community. San Jose currently has a competitive advantage over other South Bay communities that are largely built out. The uncertainty of future employment and industry needs in the dynamic, innovative Silicon Valley necessitates that the City maintain a diverse range of employment areas. The Framework describes a judicious approach to this challenging issue.

## **PUBLIC OUTREACH**

Outreach to the real estate development industry occurred throughout the development of the Strategic Economics report as well as in the creation of the Framework. Specifically, the consultant team met with the PBCE Developer Roundtable in July and October to review the scope of the study, discuss the fiscal model methodology and assumptions, and discuss the preliminary findings of the analysis.

Upon completion of the draft report, it was posted to the Planning website and hard copies were available upon request. In February, PBCE, OED, Housing, and Agency staff met with the Developer Roundtable to discuss the draft report prepared by Strategic Economics, review the Framework concepts and criteria, and take other input regarding the larger issues of land supply, housing demand, and current economic conditions.

Two focus groups were held as part of this effort. In July, a group of commercial/industrial developers, brokers, and corporate facilities planners met to discuss the "next generation work place" to better understand trends of higher intensity development (i.e., taller buildings) and greater employee densities. The first focus group contributed useful information to the Strategic Economics report as well as the Economic Development Strategy. In late February, staff convened a second focus group to discuss subarea recommendations. Focus group participants included a planning consultant, economist, real estate broker, developer/property owner, architect/facilities director for a major San Jose company, Strong Neighborhoods Initiative leader, and representatives from the National Association of Industrial Office Parks (NAIOP), Home Builders Association, and San Jose Silicon Valley Chamber of Commerce. Throughout the process, staff appreciated the active interest and participation of the development industry, learning from the many perspectives on these challenging issues.

The Board of Directors of the San Jose Silicon Valley Chamber of Commerce has submitted a recommendation that the City develop a "measured industrial land conversion policy that balances the capability for future job growth with the area's acute need for additional housing units and revenue-producing retail/commercial projects" (see attached). In particular, the Chamber Board recommends the use of a "realistic" job estimate to the year 2020, the inclusion of Coyote Valley in the calculation of land supply, and the ability to increase the size of buildings (i.e., increase Floor Area Ratios) where appropriate. These elements have been addressed in this memorandum, and the Chamber Board's recommendation is largely consistent with the proposed Framework.

## **COORDINATION**

The preparation of this memorandum was coordinated with the City Attorney's Office, Office of Economic Development, Redevelopment Agency, Department of Housing, and the Department of Planning, Building and Code Enforcement. In particular, PBCE, OED, the Agency, and Housing worked closely together to create the Framework, review the work of Strategic Economics, and conduct the public outreach mentioned above. In addition, the City Manager's Office and the Departments of Police, Fire, Library, and Parks, Recreation and Neighborhood Services provided Strategic Economics with data regarding service and cost parameters for inclusion in the fiscal model. These Offices and Departments as well as others reviewed the consultant's draft work products.

## **CEQA**

Not a project.

Del D. Borgsdorf  
City Manager

### Attachments:

1. Framework for Evaluating Proposed Conversions of Employment Lands to Other Uses
2. Letter from Steven Speno (Gibson Speno, LLC), dated February 17, 2004
3. Letter from Timothy Tosta (Steeffel, Levitt & Weiss), dated February 25, 2004
4. Letter from Beverley Bryant (Home Builders Association), dated March 19, 2004
5. Recommendation from the San Jose Silicon Valley Chamber of Commerce, adopted by the Board of Directors on February 26, 2004
6. *"Towards the Future: Jobs, Land Use, and Fiscal Issues in San Jose's Key Employment Areas, 2000-2020"*